

CHAIN OF LAKES AREA UTILITIES AUTHORITY

AUDITED FINANCIAL STATEMENTS

MARCH 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

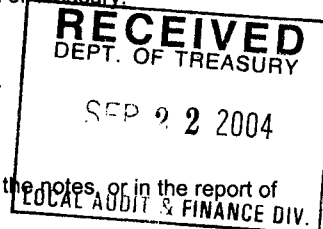
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Chain of Lakes Area Utilities Authority	County Newaygo
Audit Date 3/31/04	Opinion Date 5/27/04	Date Accountant Report Submitted to State: 9/21/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Hendon & Slate, P.C.			
Street Address 711 West Main Street		City Fremont	State MI
Accountant Signature <i>C. John Kustay</i>		ZIP 49412	Date 9/21/04

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CHAIN OF LAKES AREA UTILITIES AUTHORITY

Board Members

Cindy Sullivan	Chairman
Jody Burns	Vice-Chairman
Lora Jones	Treasurer
Margie Green	Deputy Treasurer
Lora Jones	Secretary
Dale Black	Trustee
Betty Smith	Trustee
George Suchy, Sr.	Trustee
Michael Wallace	Trustee

HS & Companies



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Independent Auditor's Report

Chain of Lakes Area Utilities Authority
Newaygo, Michigan 49337

We have audited the accompanying financial statements of the Chain of Lakes Area Utilities Authority, Newaygo County, Michigan, as of March 31, 2004 and for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Chain of Lakes Area Utilities Authority, Newaygo County, Michigan, at March 31, 2004 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Chain of Lakes Area Utilities Authority. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Chain of Lakes Area Utilities Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
May 27, 2004

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**CHAIN OF LAKES AREA UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2004**

Using this annual Report

This annual report consists of two parts - *management's discussion and analysis* (this Section) and the *basic financial statements*. The Basic Financial Statements include the following information:

- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Authority's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. These statements tell how these services were financed in short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The Chain of Lakes Area Utilities Authority was organized to operate and maintain a sewage disposal system. The municipalities creating the Authority are Brooks, Everett and Garfield Township. In May 2002 the Townships and the Authority entered into a contract with the County of Newaygo relating to the acquisition, construction, operation and financing of a sanitary sewer system. Bonds to be held by the county, were issued in the amount of \$6,915,000. The Authority and the Townships intend to defray the cost of the repayment of the note to the County through a combination of special assessments, collection fees, and user charges on all properties served by the collection system. Ownership of all assets will revert to the Authority to be held for the benefits of the Townships upon payment of the Note.

The table below contains key financial information in a condensed format between the current year and the prior year:

	<u>2004</u>	<u>2003</u>
Current Assets	\$12,200,124	\$ 12,357,385
Capital Assets	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 12,200,124</u>	<u>\$ 12,357,385</u>
Long-term Debt	\$ 6,915,000	6,915,000
Other Liabilities	<u>4,101,541</u>	<u>4,803,865</u>
Total Liabilities	<u>\$ 11,016,541</u>	<u>\$ 11,718,865</u>

Management's Discussion and Analysis (continued)

	<u>2004</u>	<u>2003</u>
Net Assets:		
Invested in Capital Assets, net of Debt	\$ -	\$ -
Restricted for Debt Service	1,183,583	638,520
Unrestricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>\$ 1,183,583</u>	<u>\$ 638,520</u>
Revenue:		
Property Taxes	\$ 548,070	\$ 636,514
Other	<u>233,069</u>	<u>2,006</u>
Total Revenues	781,139	638,520
Expenses	<u>(236,076)</u>	<u>-</u>
Change in Net Assets	<u>\$ 545,063</u>	<u>\$ 638,520</u>

The Authority as a Whole

- The Authority's primary source of revenue is from a special assessment on properties served by the collection system, representing 70 percent of total revenues.
- The Net Assets for the Authority are restricted for the payment of the debt.

The Authority's Funds

The Authority uses an Enterprise Fund to account for the activities of its Sewer Fund.

Debt Administration

At year end, the Authority had \$6,915,000 in Notes outstanding. The Debt resulted from the issuing of Bonds for the purpose of providing a sewer system.

Additional information about the Authority's long-term Debt obligation can be found in Note D Page 11 of this report.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Treasurer/Secretary of the Authority, C/O Office of the Clerk, Township of Brooks, 490 Quarterline Road, Newaygo, MI 49337.

CHAIN OF LAKES AREA UTILITIES AUTHORITY

Statement of Net Assets - Enterprise Fund March 31, 2004

	Sewer Restricted <u>Fund</u>
Assets	
Restricted Cash and Cash Equivalents	\$ 1,152,128
Accounts Receivable-Special Assessments	4,101,541
Due from Other Governmental Units	<u>6,946,455</u>
Total Assets	<u>\$ 12,200,124</u>
Liabilities and Fund Equity	
Liabilities	
Note Payable	\$ 6,915,000
Deferred Revenue	<u>4,101,541</u>
Total Liabilities	11,016,541
Net Assets	
Restricted for:	
Debt Service	<u>1,183,583</u>
Total Net Assets	<u>1,183,583</u>
Total Liabilities and Fund Equity	<u>\$ 12,200,124</u>

The Notes to the Financial Statements are an integral part of this statement.

CHAIN OF LAKES AREA UTILITIES AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets - Enterprise Fund For the Year Ended March 31, 2004

	<u>Sewer Restricted Fund</u>
Operating Revenues	
Local Revenues	
Special Assessments	\$ 548,070
Interest on Assessments	<u>226,191</u>
Total Operating Revenues	774,261
Operating Expenses	<u>-</u>
Operating Income (Loss)	774,261
Nonoperating Revenues (Expenses)	
Interest Earned on Investments	6,878
Interest Expense	<u>(236,076)</u>
Change in Net Assets	545,063
Net Assets - April 1, 2003	<u>638,520</u>
Net Assets - March 31, 2004	<u>\$ 1,183,583</u>

The Notes to the Financial Statements are an integral part of this statement.

CHAIN OF LAKES AREA UTILITIES AUTHORITY

Statement of Cash Flows - Enterprise Fund For the Year Ended March 31, 2004

	Sewer Restricted <u>Fund</u>
Cash flows from operating activities:	
Cash Received from Governmental Units	\$ 742,806
Cash Flows from Non Capital Financing Activities	
Principal and Interest Paid on Debt	(236,076)
Cash Flows from Investment Activities	<u>6,878</u>
Net Increase (Decrease) in Cash and Cash Equivalents	513,608
Cash and Cash Equivalents at Beginning of Year	<u>638,520</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,152,128</u></u>
Reconciliation of Operating Income (loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income	\$ 774,261
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) by Operating Activities:	
(Increase) Decrease in Accounts Receivable	702,324
(Increase) Decrease in Other Receivables	(31,455)
Increase (Decrease) in Notes Payable	-
Increase (Decrease) in Deferred Revenue	<u>(702,324)</u>
Net cash Provided by operating activities	<u><u>\$ 742,806</u></u>

The Notes to the Financial Statements are an integral part of this statement.

CHAIN OF LAKES AREA UTILITIES AUTHORITY

Notes to the Financial Statements
March 31, 2004

NOTE A

NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Chain of Lakes Area Utilities Authority (the "Authority") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

1. REPORTING ENTITY

The Chain of Lakes Area Utilities Authority is organized pursuant to the provisions of Act 233 PA 1955, as amended. The Incorporating Municipalities creating this Authority are the Townships of Brooks, Everett, and Garfield, which are designated as the Constituent Municipalities. The Authority is located in Newaygo County and its purpose is to provide sewer system services to the residents of the Constituent Municipalities. The Authority is governed by a six member Utility Authority Board appointed by the participating governments and is responsible for the operation of the Authority.

The Utilities' financial statements include all activities of the Authorities' operations. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Authority, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Authority's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Also, using the same criteria above, the Authority's financial statements include the accounts of all Authority operations.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government -Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

3. PROPRIETARY FUNDS

Proprietary funds use the economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheet.

Enterprise Funds - Enterprise Funds are used to account for operations that (A) are financed and operated in a manner similar to private business enterprise - where the intent of the governing body is that the costs (Expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (B) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

4. CAPITAL ASSETS

Capital assets which include land and improvements, buildings and improvements and equipment are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10-50 Years
Site Improvements	20-25 Years
Water and Sewer Lines	50-75 Years

5. PROPERTY TAXES - SPECIAL ASSESSMENTS

Properties within the Special Assessment District are assessed the roll divided into twenty (20) equal annual installments which becomes a lien on December 1 and due by February 14 with the final collection date of February 28 before they are added to the County tax rolls. The special assessments are collected and remitted to the Authority by the treasurers of the Townships participating in the Authority.

6. CASH AND EQUIVALENTS

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments, if any, with original maturities of three months or less from date of acquisition.

7. RESTRICTED ASSETS

The revenue bonds of enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bod reserve. These amounts have been classified as restricted assets, as well as amounts on deposit being held for the

construction or debt service of the Local Unit of Government's water and sewer lines.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

8. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

NOTE B DEPOSITS

Legal or Contractual Provisions for Deposits and Investments. The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, states the Authority by resolution, may authorize the Treasurer to invest surplus funds in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 81a-1 to 801-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:

Notes to the Financial Statement (Continued)

- i. The purchase of securities on a when-issued or delayed delivery basis.
- ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
- iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

The Authority funds are held at Independent Bank of West Michigan and MBIA Asset Management Corp. and are carried at cost and consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
Checking	\$ 500	\$ 500
Money Market - Debt Service	209,405	209,405
Cash Management - Debt service	<u>942,223</u>	<u>942,223</u>
Total Deposits	<u>\$ 1,152,128</u>	<u>\$ 1,152,128</u>
FDIC Insured	\$ 500	\$ 500
Uninsured	-	-
Money Market Funds	209,405	209,405
Cash Management Funds	<u>942,223</u>	<u>942,223</u>

Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, money market and cash management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE C RECEIVABLES

Receivables as of year end are as follows:

	<u>Special Assessments</u>	<u>Due from Other Units Of Government</u>
Newaygo County	\$ -	\$ 6,915,000
Everett Township	492,027	974
Brooks Township	1,319,168	11,008
Garfield Township	<u>2,290,346</u>	<u>19,473</u>
Total	<u>\$ 4,101,541</u>	<u>\$ 6,946,455</u>

Special Assessments receivables are due from the respective property owners to be collected by each township and remitted to the Authority.

Notes to the Financial Statement (Continued)

Due from County is the estimated value of the sewer project to be transferred to the Authority upon completion of the Note payable Agreement.

Due from Everett, Brooks, and Garfield Townships is the portion of the Assessments added to the County Tax rolls to be remitted back to the townships.

The Authority reported deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the reported as deferred revenue consisted of Special Assessments in the amount of \$4,803,865. These amounts are considered to be unavailable.

NOTE D LONG-TERM OBLIGATIONS

In May of 2002, the Authority, the Townships of Brooks, Everett, and Garfield (the "Townships"), and the County of Newaygo (the "County") entered into a contract for the issuance of bonds for the acquisition and financing of a sanitary sewer system. The Authority and Townships agree to pay the county amounts equal to the principal and interest due on the Bonds issued by the County. The note payments are due to the County on April 1st and October 1st, for each bond payment due May 1st and November 1st. Principal payments are due on April 1st with interest at 2.50% to 4.55% rate.

Changes in Long-Term Liabilities - The following is a summary of long-term liability activity of the Authority for the year ended March 31, 2004:

	<u>Note Payable</u>
Debt Outstanding, April 1, 2003	\$ 6,915,000
Debt Added During Year	-
Debt Retired During Year	-
Ending, March 31, 2004	<u>\$ 6,915,000</u>
Amounts Due Within One Year	\$ 265,000

Debt Service requirements at March 31, 2004 were as follows:

Year Ended <u>March 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 265,000	\$ 254,225	\$ 519,225
2006	300,000	247,162	547,162
2007	300,000	239,663	539,663
2008	300,000	231,412	531,412
2009	325,000	222,038	547,038
2010-2014	1,825,000	927,156	2,752,156
2015-2019	2,000,000	557,000	2,557,000
2020-2023	<u>1,600,000</u>	<u>142,900</u>	<u>1,742,900</u>
	<u>\$ 6,915,000</u>	<u>\$ 2,821,556</u>	<u>\$ 9,736,556</u>

Notes to the Financial Statement (Continued)

NOTE G RELATED ORGANIZATIONS

The Chain of Lakes Area Utilities Authority is the agent for sewer services for Brooks, Everett and Garfield Township.

NOTE H RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.